

**CITY OF NILES
NILES, MICHIGAN**

**SUPPLEMENTARY SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
AND OTHER REPORTS**

September 30, 2004

CITY OF NILES
Niles, Michigan

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND OTHER REPORTS
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CONTENTS

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	3
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	6
RESOLUTION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS	7



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor, City Administrator and
Members of City Council
City of Niles
Niles, Michigan

We have audited the basic financial statements of the City of Niles, Michigan (the "City") as of and for the year ended September 30, 2004, and have issued our report thereon dated January 13, 2005. In our report, our opinion was qualified because the financial statements of the City's component unit, the Niles Housing Commission, were not prepared in accordance with Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

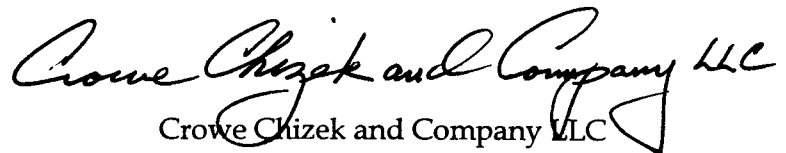
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members of City Council, management of the City of Niles, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

South Bend, Indiana
January 13, 2005



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Honorable Mayor, City Administrator and
Members of City Council
City of Niles
Niles, Michigan

Compliance

We have audited the compliance of the City of Niles, Michigan (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Supplementary Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of and for the year ended September 30, 2004, and have issued our report thereon dated January 13, 2005. In our report, our opinion was qualified because the financial statements of the City's component unit, the Niles Housing Commission, were not prepared in accordance with Governmental Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Members of City Council, management of the City of Niles, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Chizek and Company LLC

South Bend, Indiana
January 13, 2005

CITY OF NILES, MICHIGAN
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended September 30, 2004

Federal Grantor/ Grant Number	Federal CFDA Number	Qualifying Expenditures In Excess of (Less Than)	Reimbursements			Federal Share	Qualifying Expenditures	Federal Share	Total	Qualifying Expenditures In Excess of (Less Than) Reimbursements, End of Year	
		Reimbursements, Beginning of Year	Federal Share	Local Share	Total		Local Share				
U.S. Department of Transportation											
Federal Transportation Administration											
Capital Assistance											
MI-90-X367-00 (1999-2001)	20.507	\$ -	\$ 127,339	\$ -	\$ 127,339	\$ 127,339	\$ 31,835	\$ 159,174	\$ -		
MI-90-X398 (2002)	20.507	-	1,657	-	1,657	1,657	414	2,071	-		
Total Department of Transportation		<u>\$ -</u>	<u>\$ 128,996</u>	<u>\$ -</u>	<u>\$ 128,996</u>	<u>\$ 128,996</u>	<u>\$ 32,249</u>	<u>\$ 161,245</u>	<u>\$ -</u>		
U.S. Department of Justice											
Local Law Enforcement Block Grant											
#2002-LB-BX-1656	16.579	\$ (13,717)	\$ -	\$ -	\$ -	\$ 13,717	\$ 5,815	\$ 19,532	\$ -		
#2003-LB-BX-0524	16.579	-	12,849	-	12,849	6,397	711	7,108	(6,452)		
Total Department of Justice		<u>\$ (13,717)</u>	<u>\$ 12,849</u>	<u>\$ -</u>	<u>\$ 12,849</u>	<u>\$ 20,114</u>	<u>\$ 6,526</u>	<u>\$ 26,640</u>	<u>\$ (6,452)</u>		
Department of Homeland Security											
Emergency & Response Directorate											
#EMW-2003-FG-10333	97.044	<u>\$ (28,089)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,089</u>	<u>\$ -</u>	<u>\$ 28,089</u>	<u>\$ -</u>		
U.S. Department of Housing & Urban Development (HUD)											
Community Planning and Development Grant											
#MSC 202027	14.228*	\$ 174,719	\$ 488,909	\$ -	\$ 488,909	\$ 1,049,490	\$ -	\$ 1,049,490	\$ 735,300		
HUD Section 4 Funds											
#42100-0003	14.218*	-	12,542	-	12,542	12,542	-	12,542	-		
Total HUD		<u>\$ 174,719</u>	<u>\$ 501,451</u>	<u>\$ -</u>	<u>\$ 501,451</u>	<u>\$ 1,062,032</u>	<u>\$ -</u>	<u>\$ 1,062,032</u>	<u>\$ 735,300</u>		
Total Federal Financial Assistance		<u>\$ 132,913</u>	<u>\$ 643,296</u>	<u>\$ -</u>	<u>\$ 643,296</u>	<u>\$ 1,239,231</u>	<u>\$ 38,775</u>	<u>\$ 1,278,006</u>	<u>\$ 728,848</u>		

* Major program as defined by OMB Circular A-133

CITY OF NILES, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended September 30, 2004

Section 1. Summary of auditor's results

1. The auditor's report expresses a qualified opinion on the basic financial statements of the City of Niles, Michigan. The qualification was due solely to the fact that the City's component unit, the Niles Housing Commission, did not prepare its financial statements as of and for the year ended December 31, 2003 in accordance with GASB Statement No. 34 as required, and therefore the financial information of the component unit included in the City's basic financial statements was not in accordance with accounting principles generally accepted in the United States of America.
2. No instances of noncompliance material to the basic financial statements of the City of Niles, Michigan were disclosed during the audit.
3. The auditor's report for major federal program compliance for the City of Niles, Michigan expresses an unqualified opinion.
4. There were no audit findings required to be disclosed under OMB Circular A-133 section 510(a).
5. The major programs identified were as follows:
 - * U.S. Department of Housing & Urban Development Community Planning and Development Grant MSC #202027, CFDA #14.228
 - * U.S. Department of Housing & Urban Development HUD Section 4 Funds #42100-0003, CFDA #14.218

The U.S. Department of Housing & Urban Development will receive a copy of the OMB Circular A-133 reporting package, as a Federal Awarding Agency.

6. The threshold for distinguishing Type A and Type B programs was \$500,000.
7. The City of Niles, Michigan did not qualify as a low-risk auditee under OMB Circular A-133, Section 530.

Section 2. Findings related to the financial statements which are required to be reported in accordance with GAGAS

None

Section 3. Findings and questioned costs for federal awards

None

CITY OF NILES, MICHIGAN
RESOLUTION OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year ended September 30, 2004

Audit Finding #02-1 Reconciliation of General Ledger to Grant Request - Fiscal year ended September 30, 2002.

During the fiscal year ended September 30, 2002, it was identified that the third-party contractor for the transportation system did not have adequate documentation reconciling its general ledger to the expenditures reported in the City's federal grant for preventive maintenance expense reimbursement.

This finding has not yet been completely corrected. The City's corrective action plan is to meet with the third-party contractor and determine what documentation is needed to comply with the grant reimbursement requirements. An initial meeting has occurred. It is planned that this meeting will be followed by an on-site visit to the third-party contractor to inspect their records and ultimately resolve this matter.